IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO **DIVISION OF FINANCIAL MANAGEMENT** **APRIL 2004 VOLUME XXVI NO. 10**

It seems the only people with more to celebrate than economists these days are the UConn basketball teams. The men and women Huskies earned their bragging rights to being the best in the land, both capturing their respective NCAA basketball titles. Like these happy hoopsters from Storr, many economists are also walking a few inches off the ground these days, but for another reason.

This month the U.S. Department of Labor reported news that seemed too good to be true. U.S. nonfarm payroll employment grew by 308,000 in March 2004. This job explosion far exceeded the collective expectation of about a 100,000 gain. To put this in perspective, it was the biggest monthly increase since April 2003. Also noteworthy was that the original estimates for February and March were revised upward a combined 87,000 jobs. Previous to these revisions, the three-month average increase was a disappointing 42,000. The strong March numbers and revised February numbers bring the first quarter average to a healthy 171,000 jobs per month. This was the kind of growth most economists were counting on when they bet the jobless recovery would be over this spring.

Just as one championship does not create a dynasty, neither does one month make a trend. History is littered with examples. Just ask any Seattle Supersonics fan. Twenty-five years ago this team was the NBA champion, a feat it has yet to repeat. Indeed, past performance is not a guarantee of future success. A similar concern can be raised about the jobs situation. It is tempting to declare the strong March employment report as a sure sign the job drought is over. But you are reminded whether it is the economy or sports, there are no sure things. Just ask any Chicago Cub fan that watched a "sure thing" playoff berth disappear when an overzealous fan reached for a souvenir that historic night last fall.

Some economists fear March's strong job report may be a case of déjà vu "all over again". Late last year, the U.S. Department of Labor reported nonfarm employment rose 126,000 in October 2003. At the same time, the estimates for the previous two months had been revised upwards. Most notably, the August estimate was changed from a 93,000 net job loss to a 35,000 gain.

Most economists, including Division of Financial Management's, considered this proof the job recovery they had predicted for the second half of last year was indeed underway. Unfortunately, this good news was followed by a series of disappointing reports that raised fears the job recovery had stalled, or even worse, had not yet begun. Having been burned before, it is no wonder some economists have chosen to delay attending the victory party for the job recovery.

While maybe not as unshakeable as Bostonians' faith in their beloved Red Sox, Global Insight, an international economic firm, has continued to project job growth despite a winter's worth of disappointing employment reports. One reason for this is the reliability of the data. Traditionally, the nonfarm establishment data was viewed as a more accurate gauge of the economy than the household employment numbers. Recently, the household data show employment growing faster than the establishment data, which is consistent with the strong overall economic growth the U.S. has been experiencing.

Global Insight believes the gap between weak nonfarm employment growth and strong GDP employment growth is real and can be explained by strong productivity growth. The productivity gains were the result of strong competitive pressures on U.S. companies and extreme risk aversions resulting from several shocks over the years. It also believes the output recovery is in high gear and job growth will follow. That being the case, March's strong employment report serves as evidence the predicted job recovery is under way. The forecast calls for nonfarm employment to advance 0.7% this year, 2.0% next year, 1.7% in 2006, and 1.4% in 2007.

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General Fund Update

As of March 31, 2004

Revenue Source	$ Millions FY04 Executive Estimate[3]	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	895.8	621.3	602.40
Corporate Income tax	100.1	57.7	50.4
Sales Tax	884.1	662.0	657.2
Product Taxes[1]	45.3	33.7	33.1
Miscellaneous	150.9	100.6	108.0
TOTAL GENERAL FUND[2]	**2,076.2**	**1,475.3**	**1,451.1**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of January 2004

General Fund revenue was $7.5 million higher than expected in March. This is almost double the amount reported by the media earlier this month that was based on incomplete data. Fiscal year to date revenue is now $24.2 million lower than expected. Strength in the Individual Income Tax and Miscellaneous receipts was partially offset by minor slippage in the Sales Tax and Product Tax receipts. Corporate receipts were essentially on target.

Individual income tax revenue was $5.4 million higher than expected in March. On the collection side, withholding collections were $3.3 million higher than predicted and filing payments were $2.9 million higher than predicted for the month. This was partially offset by refunds that were a mere $0.5 million higher than expected and miscellaneous diversions that were $0.3 million higher than expected. Perhaps the best news in this important revenue category is that filing collections are now $5.9 million higher than expected for this point in the fiscal year, and withholding collections are $2.6 million higher than expected on a cumulative basis. The only "weakness" in the Individual Income Tax at this point is due to refunds, and this is expected to fully correct itself by the end of the fiscal year.

Corporate income tax revenue was essentially on target in March, coming in $0.1 million higher than expected. However, this leaves the year to date receipts $7.3 million behind expectations with just three months remaining in the fiscal year.

Sales tax revenue slipped a bit in March, coming in $1.0 million lower than expected. This leaves the category down by $4.8 million, a gap that could prove difficult to close. However, recent reports of strong retail sales in March, combined with what appears to be a strengthening economic recovery, may bring this revenue category in line by the end of the fiscal year.

Product taxes were $0.4 below target in March due to weak cigarette tax collections. The Product Tax category is now $0.6 million lower than expected for the fiscal year to date. Miscellaneous revenues were $3.5 million higher than expected for the month of March, which is attributed to the strength, was in the Insurance Premium Tax.